

# DEPARTMENT OF BUSINESS MANAGEMENT

Conducted by Paul C. Olsen.\*

COMMENTS, QUESTIONS AND SUGGESTIONS ARE INVITED AND WELCOME.

Readers are invited to submit comments, criticisms and suggestions regarding the material which appears in this department. The Editor also will undertake to answer questions regarding general problems of business management. Letters of general interest will be published, but the writer's name will not be revealed without his permission.

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## ARE QUANTITY DISCOUNTS FAIR TO THE SMALL DRUGGIST?

Every one knows that cut prices in the retail drug business result from a number of causes. For some of these, the druggist is entirely responsible. Others are beyond his control.

The following is a situation for which the manufacturer is accountable. (Incidentally, the manufacturer as well as the retailer, is a sufferer from this situation.) The figures hereafter given are, of course, not exact quotations of the prices of any particular manufacturer, but they are typical of a number of current propositions.

A product, well and favorably known, is intended to sell for 60 cents. The retailers' list price is \$4.80 a dozen, making the cost of the merchandise 40 cents a bottle. If the product is bought in gross lots, however, a special discount of 10 per cent is allowed, making the net cost 36 cents per bottle when bought in this quantity.

More than that, if a dealer will agree to buy 10 gross of the product within any one calendar year, he will receive a further discount of 10 per cent from the 36 cent price, making the net cost 32.4 cents.

From the prices given a cash discount of 2 per cent is allowed; thus the lowest price at which this article, intended to sell for 60 cents, can be bought by the retailer is just over 32 cents.

Some people wonder why manufacturers offer special discounts for quantity purchases. Any druggist knows that he is beset continually with quantity discount schemes which are infinitely more complex and hard to understand than the hypothetical example cited.

Manufacturers offer ample justification for their quantity discounts. They say, for example, that it is not ten times more expensive to sell a druggist 10 dozen of an article than it is to sell him one dozen. It costs more, proportionately, to secure small orders and fill small orders than larger ones. Selling in large individual quantities possesses the same possibilities of economy as does production in large quantities. Therefore, isn't it only fair, the manufacturer argues, that the large quantity buyer should receive, in the form of extra discounts, some of the economies which result from this method of buying?

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\* Instructor of Merchandising, Wharton School of Finance and Commerce, University of Pennsylvania, Lecturer on Business Administration, Philadelphia College of Pharmacy and Science.

Now suppose we look at the results of these extra discounts from the standpoint of the retailer.

A druggist located in or near a large city, close to numerous wholesale sources of supply, feels that there is no need for him to carry on hand more than a week's supply of a particular item. In the case of the hypothetical 60-cent item discussed here, the druggist's experience has been that purchases of the article a dozen at a time assure him a stock, which, while adequate for his needs, turns over on the average in a week's time.

That means he must buy this article at the dozen price of \$4.80. He intends to sell the article at 60 cents. Inasmuch as his overhead averages 25 per cent on sales, his week's profit on sales of a dozen of this particular item is 60 cents, or 5 cents a bottle.

Compare the situation of this neighborhood druggist with that of a huge central city drug store. There the proprietor finds that he easily can sell a gross of the article every week. It is contrary to his policy to buy, at one time, more than a week's supply of a fast selling item; therefore, the price he pays for this item is \$4.32 a dozen or 36 cents per bottle.

Although his rent is high, salaries and some other expenses are low; the total operating expenses of the store average the same as the neighborhood store—25 per cent of sales.

This proprietor finds that, with a cost of 36 cents, he can sell this 60-cent article for 54 cents and still make the same rate of profit as his neighborhood competitor, who must obtain 60 cents for the article. Compare the figures in the following tables.

<i>Neighborhood Store.</i>		<i>Central City Store.</i>	
Selling price.....	0.60	Selling price.....	0.54
Cost of the goods in dozen lots	0.40	Cost of the goods in gross lots	0.36
Selling expenses (averaging 25% of sales).....	0.15	Selling expenses (averaging 25% of sales).....	0.13 <sup>1</sup> / <sub>2</sub>
Profit.....	0.05-8 <sup>1</sup> / <sub>8</sub> %	Profit.....	0.04 <sup>1</sup> / <sub>2</sub> -8 <sup>1</sup> / <sub>8</sub> %

The central city store proprietor believes that his cut price will attract to his store a sufficient number of additional buyers to make up at least the 10 per cent loss in dollars and cents by reason of the 10 per cent price cut.

Turn now to a mammoth department store which long has used its toilet goods department as a cut price leader by which to attract people to the store.

The toilet goods buyer of this store believes that he easily can sell 10 gross of this popular item in a week's time. Selling costs in the toilet goods department of this store likewise average 25 per cent of sales. Notice the costs and profits of this department store on this item, even though the article is sold at the cut price of 2 bottles for 97 cents.

<i>Department Store.</i>	
Selling price.....	0.485
Cost of the goods in 10 gross lots.....	0.324
Selling expenses (averaging 25% of sales).....	0.121
Profit.....	0.04-8 <sup>1</sup> / <sub>8</sub> %

Like the proprietor of the central city drug store, the department store's toilet goods buyer believes that the attraction of a cut price of nearly 20 per cent will

certainly bring in enough sales to more than make up for the reduction in the dollars and cents amount of each sale.

Thus arises a situation by which a central city drug store and a department store selling respectively at cut prices of about 10 and 20 per cent can make just as great a percentage of profit as the neighborhood drug store which must sell the article at the full price in order to earn that rate of profit. The manufacturer's quantity discount is what makes possible this anomalous and demoralizing situation.

Yet the manufacturer correctly justifies quantity discounts on the ground that small orders are proportionately more expensive to fill than large orders.

The manufacturer who employs quantity discounts of the kind discussed in this article, however, is bringing about a situation which is distinctly not to his own interest. Consider the following facts.

When department stores and large central city stores continuously and profitably sell 60-cent goods at 49 to 54 cents, any druggist knows that the usual price for the article tends all over the city to drop to or near that level. No druggist who has an overhead averaging 25 per cent of sales can make any money selling an item which costs him 40 cents for 49 cents.

What is more, the druggist himself knows this. But he must stock the article because it is in large demand. However, he knows it is suicide for him to push the sale of such an article which must be sold at a price which can result only in a loss. The neighborhood druggist wisely fills his windows and his counters with merchandise for which he can obtain, without difficulty, a price which yields him a profit and, when he has opportunity to suggest additional purchases to his customers, he naturally suggests the things which he can sell at a profit.

The cut-price merchandise remains under the counter, out of sight. Of course, sales are made when customers ask for it, but these sales are only a fraction of what they might be, if the small independent druggists by window and store display and personal salesmanship actually were aggressively pushing its sale. Multiply this indifferent and hostile attitude of the small independent druggists toward widely cut merchandise by the 40,000 or 45,000 merchants there are in the United States. What happens? The only aggressive sellers of this article become the 400 or 500 department stores and the few thousand consistent cut-price drug stores, instead of 40,000 or 45,000 additional small independent drug stores, the sales of which of any one line of goods are stupendous in the aggregate.

The manufacturer's troubles do not stop here. The very thing that in the beginning made this article attractive to the "cut price" merchants was the fact that it was being sold widely and aggressively at full prices by this large group of small, independent druggists. When, because of consistent cutting, these retailers begin to stop pushing its sale its value as a "cut price" leader begins to diminish. Eventually, too, it ceases to be a featured item even in the stores in which it had been sold at cut prices.

I don't mean to imply that the course here outlined develops over night and that a product passes to oblivion in a few weeks' time. These changes are a matter of months and years, depending upon how well established the product is. The tendency is the same, however, it seems to me, regardless of how long the time required.

That is the reason a quantity discount which makes possible profitable selling

at demoralizing cut prices really is a boomerang. The manufacturer gives quantity discounts, as was explained, because large orders cost less to fill than small orders. However, these large orders with their resulting temptations to cut prices kill the interest in the product of the vast number of small independent druggists who, by the nature of their businesses, are compelled to buy in small quantities. The result is, that the total volume of business of the manufacturer tends eventually to decrease because the aggregate of all of these small orders is so large. Accordingly, quantity discounts eventually result in decreased sales and increased costs, instead of the increased sales and decreased costs they were intended to produce.

The manufacturer's possibilities of loss of business are accelerated further by the fact that purchasers who buy large quantities of an item to sell profitably at low prices lose interest in that item when it ceases to be widely and aggressively sold at its full price. Thus quantity discounts again defeat their purpose.

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#### SPECULATING IN MERCHANDISE AND BUYING MERCHANDISE ARE TWO DIFFERENT THINGS.

Some years ago the market for buttons mounted on cards was exceedingly demoralized. Importations from Europe were being offered at so little as one-tenth of the usual prices.

One importer with a huge stock on hand called at the offices of one of the largest chains of five and ten cent stores. He offered the enormous quantity of buttons he possessed at a ridiculously low price, because he was desperately anxious to turn this large stock into cash at once. Nearly every one of the styles he offered had been sold by the chain for a long time.

To the surprise of the importer, the chain refused even to consider buying the entire lot he offered at these bargain prices. In vain did the importer warn them that only an unusual market condition made possible this sensational offer at this particular time.

The chain's objection to the purchase of the huge lot at one time was this: "We depend for our profits," they said, "upon small margins, rapid turnover and small stocks. We make little or no attempt to forecast buying tendencies; nor do we, therefore, speculate in merchandise. We aim merely to supply economically and efficiently the demands which we find do exist.

"We sell the very styles of buttons you are offering us and expect to continue to sell them. But we buy what we sell only as fast as we sell it. In that way we reduce to a minimum the danger of overstocking ourselves and also the possibility of having on hand excessive quantities of merchandise, seasonable or otherwise, for which a demand no longer exists.

"We would rather continue to buy these buttons you offer in dozen and gross lots at sixty cents a dozen cards and buy them only as we need them, rather than invest several thousand dollars in a very large quantity purchase and run the risk of a huge loss if the demand should stop suddenly. We lose, of course, the possibility of speculative profits by this method of buying, but we also eliminate the possibility of equally large speculative losses."

Perhaps in this cautious buying policy of a leading chain of five and ten cent

stores there is something of interest for the retail druggist, who is considering the merits of various quantity discount offers which are made to him.

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SEASONABLE DISPLAYS FOR APRIL AND MAY.

Easter goods	Housecleaning aids
Perfumes	Camphor, moth balls, cedar flakes
Perfume atomizers	Clothing bags
Toilet waters	Insecticides and germicides
Face powders	Sponges and chamois
Compacts	Soaps and cleansers
Cameras and photographic supplies	

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A PHARMACEUTICAL STUDY OF SYRUP OF FERROUS IODIDE  
(1840-1927).

BY CATY J. BRAFORD AND H. A. LANGENHAN.

NO. I. HISTORICAL.

Iodine was accidentally discovered, in 1812, by Courtois of Paris, a manufacturer of salt-petre, and was first used in medicine by Dr. Coindet, in 1819, during his experimentation on a remedy for goitre. The iodide of iron was used by Dr. Pierquin in 1824.<sup>1</sup> Durand,<sup>2</sup> in 1833, reported that "this therapeutic agent was lately introduced into medical practice, in Philadelphia, by Dr. Jackson, on whose recommendation it is now pretty extensively used in this city and in some parts of the country." It was prescribed under the title of "Dr. Jackson's Solution of Iodide of Iron," and its formula was similar to that used by Baup and Caillot.<sup>3</sup> According to Dunglison,<sup>3</sup> Professor A. T. Thomson, of the London University, presented a paper entitled, "Some Observations on the Preparation and Medicinal Employment of Ioduret and Hydriodate of Iron (1834)," in which he strongly recommended the use of this compound. The result of his report, it is claimed, was the general introduction of the use of this compound. According to the U. S. Dispensatory (19th ed., p. 1224), Thomson proposed a formula for a strong syrup, which it is said was the basis for the British Pharmacopœial formula.

The solution of ferrous iodide was quite unstable and attempts were made to obtain a more permanent product. Frederking<sup>4</sup> in 1839 suggested the addition of a saccharine substance as a preservative and in 1840, Procter<sup>5</sup> acting upon this suggestion experimented with sugar of milk, manna, honey and "uncrystallizable sugar." Dupasquier<sup>6</sup> in 1841 used "Syrup of Gum" and in the same year Beral<sup>7</sup>

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<sup>1</sup> E. J. Mowry, *Am. J. Pharm.*, 58, 289 (1886). See also "Dunglison, *New Rem.*," 5th ed., 300 (1846).

<sup>2</sup> E. Durand, *Am. J. Pharm.*, 4, 287 (1833).

<sup>3</sup> R. Dunglison, "New Rem.," 5th ed., 297 (1846).

<sup>4</sup> Frederking, *Am. J. Pharm.*, 58, 289 (1886), from Buchner's *Rep. du Pharmacie*.

<sup>5</sup> Procter, *Am. J. Pharm.*, 12, 13 (1840).

<sup>6</sup> Dupasquier, *Jour. de Pharm.*, (1841); through *Am. J. Pharm.*, 58, 289 (1886).

<sup>7</sup> Beral, *Am. J. Pharm.*, 13, 74 (1841); from *Jour. de Chem. Med.*